

NORTHEAST COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Northeast Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 election)		
Charles Corr	President	2007
Mark Neblung	Vice President	2006
Bill Costello	Board Member	2005
Mary Smith	Board Member	2006
Mark Mahmens	Board Member	2007
Board of Education (After September 2005 election)		
Charles Corr	President	2007
Mark Neblung	Vice President	2006
Bill Costello	Board Member	2008
Mary Smith	Board Member	2006
Mark Mahmens	Board Member	2007
School Officials		
Jim Cox	Superintendent	2006
Cindy McAleer	District Secretary/Treasurer	2006
Brian Gruhn	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northeast Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Northeast Community School District, Goose Lake, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

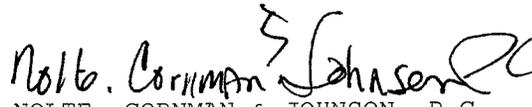
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northeast Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2006 on our consideration of the Northeast Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 and 33 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 5, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,201,282 in fiscal 2005 to \$5,501,095 in fiscal 2006, while General Fund expenditures increased from \$5,279,714 in fiscal 2005 to \$5,499,230 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$1,368,097 in fiscal 2005 to a balance of \$1,393,126 in fiscal 2006, a 2% increase from the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Northeast Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Northeast Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Northeast Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

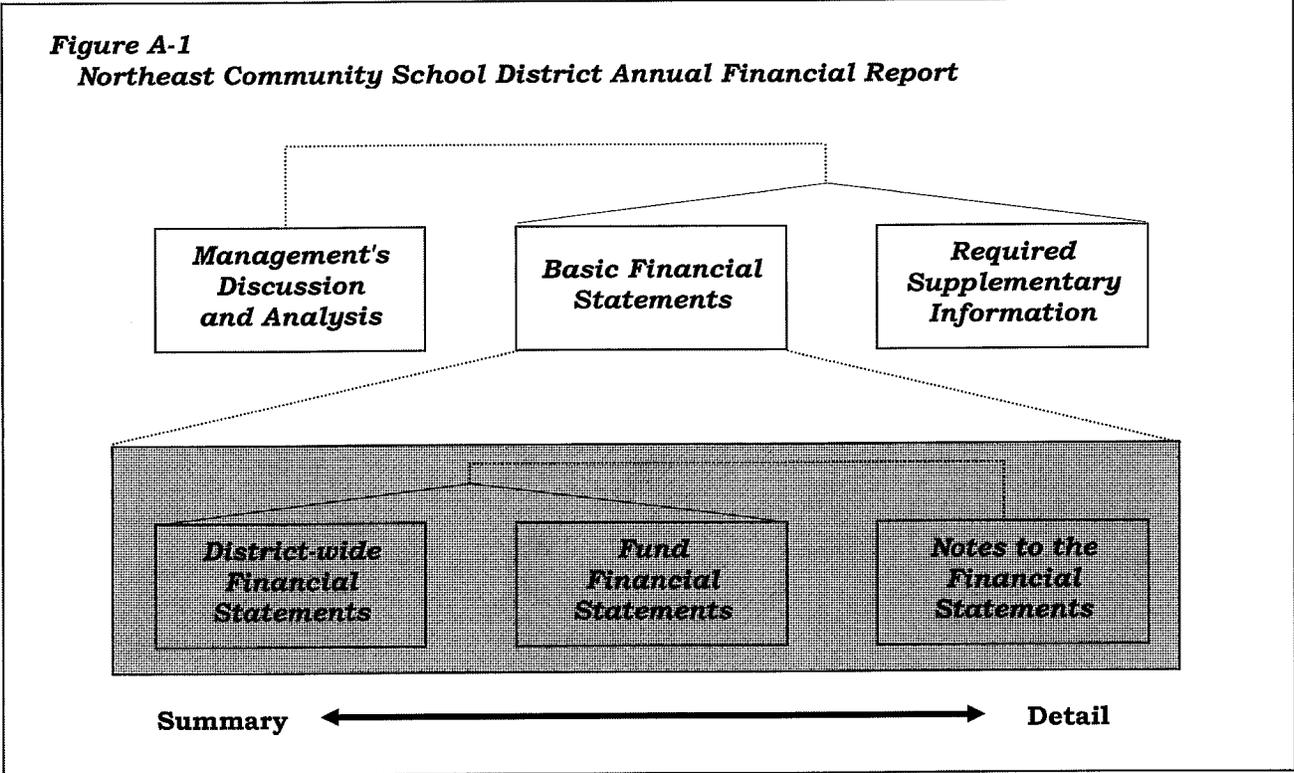


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund, and the Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 4,397,321	4,266,099	70,096	61,569	4,467,417	4,327,668	3.23%
Capital Assets	5,715,942	5,815,933	44,500	48,788	5,760,442	5,864,721	-1.78%
Total assets	10,113,263	10,082,032	114,596	110,357	10,227,859	10,192,389	0.35%
Long-term liabilities	3,079,571	3,460,274	0	0	3,079,571	3,460,274	-11.00%
Other liabilities	2,562,021	2,580,422	15,475	14,480	2,577,496	2,594,902	-0.67%
Total liabilities	5,641,592	6,040,696	15,475	14,480	5,657,067	6,055,176	-6.57%
Net assets:							
Invested in capital assets, net of related debt	2,716,715	2,455,792	44,500	48,788	2,761,215	2,504,580	10.25%
Restricted	185,344	56,027	0	0	185,344	56,027	230.81%
Unrestricted	1,569,612	1,529,517	54,621	47,089	1,624,233	1,576,606	3.02%
Total net assets	\$ 4,471,671	4,041,336	99,121	95,877	4,570,792	4,137,213	10.48%

The District's combined net assets increased by 10.48%, or \$433,579, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$129,317, or 230.81% over the prior year. The increase was primarily a result of increased in the Special Revenue, Activity Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$47,627, or 3.02%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 943,722	791,391	158,332	149,218	1,102,054	940,609	17.16%
Operating grants and contributions and restricted interest	560,845	635,829	97,529	82,816	658,374	718,645	-8.39%
General revenues:							
Property tax	2,184,090	2,200,425	0	0	2,184,090	2,200,425	-0.74%
Local option sales and service tax	378,082	370,625	0	0	378,082	370,625	2.01%
Unrestricted state grants	2,356,066	2,278,131	0	0	2,356,066	2,278,131	3.42%
Unrestricted investment earnings	65,782	38,928	1,652	766	67,434	39,694	69.88%
Other	32,326	0	0	0	32,326	0	100.00%
Total revenues	6,520,913	6,315,329	257,513	232,800	6,778,426	6,548,129	3.52%
Program expenses:							
Governmental activities:							
Instructional	3,643,230	3,590,464	0	0	3,643,230	3,590,464	1.47%
Support services	1,985,806	1,846,523	0	0	1,985,806	1,846,523	7.54%
Non-instructional programs	2,663	1,386	254,269	256,160	256,932	257,546	-0.24%
Other expenses	481,200	782,457	0	0	481,200	782,457	-38.50%
Total expenses	6,112,899	6,220,830	254,269	256,160	6,367,168	6,476,990	-1.70%
Change in net assets before other financing sources	408,014	94,499	3,244	(23,360)	411,258	71,139	-478.10%
Other financing sources	22,321	0	0	0	22,321	0	100.00%
Change in net assets	430,335	94,499	3,244	(23,360)	433,579	71,139	509.48%
Beginning net assets	4,041,336	3,946,837	95,877	119,237	4,137,213	4,066,074	1.75%
Ending net assets	\$ 4,471,671	4,041,336	99,121	95,877	4,570,792	4,137,213	10.48%

Property tax, local option sales and services tax and unrestricted state grants account for 73% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,520,913 and expenses were \$6,112,899.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,643,230	2,328,367
Support services	1,985,806	1,982,645
Non-instructional programs	2,663	2,663
Other expenses	481,200	294,657
Totals	<u>\$ 6,112,899</u>	<u>4,608,332</u>

- The cost financed by users of the District's programs was \$943,722.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$560,845.
- The net cost of governmental activities was financed with \$2,184,090 in property and other taxes, \$378,082 in local option sales and services tax, \$2,356,066 in unrestricted state grants, \$65,782 in interest on investments, and \$32,326 in other general revenue.

Business-Type Activities

Revenues of the District's business-type activities were \$257,513 and expenses were \$254,269. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Northeast Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,671,501, above last year's ending fund balances of \$1,537,761. This increase is due primarily to the increase in the Special Revenue, Management Fund balance.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. An increase in revenues was more than the increase in expenditures, resulting in the General Fund balance to increase.
- The General Fund balance increased from \$1,368,097 to \$1,393,126, due mostly in part to the increase in tuition revenues and unrestricted state grants.
- The Management Fund balance increased from \$77,998 at June 30, 2005 to \$174,373 at June 30, 2006, representing an increase of 124%.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$95,877 at June 30, 2005, to \$99,121 at June 30, 2006, representing an increase of 3%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$452,976 more than budgeted revenues, a variance of 7.18%. The District received more in local, state, federal and intermediate sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

During the year ended June 30, 2006, the District adopted one budget amendment to increase support services expenditures from \$1,806,508 to \$1,900,000 and non-instructional expenses from \$250,200 to \$260,000. Although the District adopted this budget amendment, support services and other expenditures functions exceeded the amounts budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$5,760,442, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$326,187.

The original cost of the District's capital assets was \$10,394,328. Governmental funds account for \$10,248,326 with the remainder of \$146,002 in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 116,677	116,677	0	0	116,677	116,677	0%
Construction in progress	0	75,551	0	0	0	75,551	-100.00%
Buildings	4,406,142	4,385,103	0	0	4,406,142	4,385,103	0.48%
Improvements other than buildings	829,876	847,327	0	0	829,876	847,327	-2.10%
Machinery and equipment	363,247	391,275	44,500	48,788	407,747	440,063	-7.93%
Total	\$ 5,715,942	5,815,933	44,500	48,788	5,760,442	5,864,721	-1.81%

Long-Term Debt

At June 30, 2006, the District had \$3,079,571 in general obligation and other long-term debt outstanding. This represents a decrease of 11% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 2,555,000	2,800,000	-8.8%
Revenue bonds	495,000	610,000	-18.9%
Early retirement	29,571	50,274	-41.2%
Totals	<u>\$ 3,079,571</u>	<u>3,460,274</u>	<u>-11.0%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Potential substantial increases in gasoline/diesel fuel will impact the District's efforts to control expenditures.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cindy McAleer, Business Manager, Northeast Community School District, Box 66, 1450 370th Avenue, Goose Lake, Iowa, 52750.

BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,977,803	64,640	2,042,443
Receivables:			
Property tax:			
Delinquent	44,618	0	44,618
Succeeding year	1,984,356	0	1,984,356
Income surtax	176,486	0	176,486
Due from other governments	214,058	500	214,558
Inventories	0	4,956	4,956
Capital assets, net of accumulated depreciation(Note 4)	5,715,942	44,500	5,760,442
TOTAL ASSETS	10,113,263	114,596	10,227,859
LIABILITIES			
Accounts payable	77,965	0	77,965
Salaries and benefits payable	487,013	11,796	498,809
Accrued interest payable	12,687	0	12,687
Deferred revenue:			
Succeeding year property tax	1,984,356	0	1,984,356
Other	0	3,679	3,679
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds	250,000	0	250,000
Revenue bonds	120,000	0	120,000
Early retirement	14,785	0	14,785
Portion due after one year:			
General obligation bonds	2,305,000	0	2,305,000
Revenue bonds	375,000	0	375,000
Early retirement	14,786	0	14,786
TOTAL LIABILITIES	5,641,592	15,475	5,657,067
NET ASSETS			
Investment in capital assets, net of related debt	2,716,715	44,500	2,761,215
Restricted for:			
Management levy	144,802	0	144,802
Physical plant and equipment levy	1,381	0	1,381
Other special revenue purposes	39,161	0	39,161
Unrestricted	1,569,612	54,621	1,624,233
TOTAL NET ASSETS	\$ 4,471,671	99,121	4,570,792

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, and Restricted Contributions Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,343,872	523,563	371,141	(1,449,168)	0	(1,449,168)
Special instruction	612,022	189,450	0	(422,572)	0	(422,572)
Other instruction	687,336	230,709	0	(456,627)	0	(456,627)
	<u>3,643,230</u>	<u>943,722</u>	<u>371,141</u>	<u>(2,328,367)</u>	<u>0</u>	<u>(2,328,367)</u>
Support services:						
Student services	209,714	0	0	(209,714)	0	(209,714)
Instructional staff services	138,799	0	0	(138,799)	0	(138,799)
Administration services	614,081	0	0	(614,081)	0	(614,081)
Operation and maintenance of plant services	564,378	0	0	(564,378)	0	(564,378)
Transportation services	458,834	0	3,161	(455,673)	0	(455,673)
	<u>1,985,806</u>	<u>0</u>	<u>3,161</u>	<u>(1,982,645)</u>	<u>0</u>	<u>(1,982,645)</u>
Non-instructional programs	2,663	0	0	(2,663)		(2,663)
Other expenditures:						
Facilities acquisitions	13,760	0	0	(13,760)	0	(13,760)
Long-term debt interest	92,606	0	0	(92,606)	0	(92,606)
AEA flowthrough	186,543	0	186,543	0	0	0
Depreciation (unallocated) *	188,291	0	0	(188,291)	0	(188,291)
	<u>481,200</u>	<u>0</u>	<u>186,543</u>	<u>(294,657)</u>	<u>0</u>	<u>(294,657)</u>
Total governmental activities	6,112,899	943,722	560,845	(4,608,332)	0	(4,608,332)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	254,269	158,332	97,529	0	1,592	1,592
Total business-type activities	<u>254,269</u>	<u>158,332</u>	<u>97,529</u>	<u>0</u>	<u>1,592</u>	<u>1,592</u>
Total	<u>\$ 6,367,168</u>	<u>1,102,054</u>	<u>658,374</u>	<u>(4,608,332)</u>	<u>1,592</u>	<u>(4,606,740)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,936,827	0	1,936,827
Debt service				201,914	0	201,914
Capital outlay				45,349	0	45,349
Local option sales and services				378,082	0	378,082
Unrestricted state grants				2,356,066	0	2,356,066
Unrestricted investment earnings				65,782	1,652	67,434
Other revenue				32,326	0	32,326
Total general revenues				<u>5,016,346</u>	<u>1,652</u>	<u>5,017,998</u>
Change in net assets before capital contributions				408,014	3,244	411,258
Sale of equipment				22,321	0	22,321
Changes in net assets				430,335	3,244	433,579
Net assets beginning of year				4,041,336	95,877	4,137,213
Net assets end of year				<u>\$ 4,471,671</u>	<u>99,121</u>	<u>4,570,792</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Other Nonmajor Governmental		Total
	General	Funds	
ASSETS			
Cash and pooled investments:	\$ 1,759,670	218,133	1,977,803
Receivables:			
Property tax:			
Delinquent	34,776	9,842	44,618
Succeeding year	1,549,694	434,662	1,984,356
Income surtax	176,486	0	176,486
Due from other governments	150,867	63,191	214,058
TOTAL ASSETS	\$ 3,671,493	725,828	4,397,321
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 65,533	12,432	77,965
Salaries and benefits payable	486,654	359	487,013
Deferred revenue:			
Succeeding year property tax	1,549,694	434,662	1,984,356
Income surtax	176,486	0	176,486
Total liabilities	2,278,367	447,453	2,725,820
Fund balances:			
Reserved for:			
Debt service	0	19,639	19,639
Unreserved	1,393,126	258,736	1,651,862
Total fund balances	1,393,126	278,375	1,671,501
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,671,493	725,828	4,397,321

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 15) \$ 1,671,501

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds. 5,715,942

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (12,687)

Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. 176,486

Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported in the funds. (3,079,571)

Net assets of governmental activites (page 13) \$ 4,471,671

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,733,304	813,802	2,547,106
Tuition	713,013	0	713,013
Other	137,866	190,950	328,816
Intermediate sources	38,159	0	38,159
State sources	2,772,517	0	2,772,517
Federal sources	106,236	0	106,236
Total revenues	<u>5,501,095</u>	<u>1,004,752</u>	<u>6,505,847</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,317,919	36,767	2,354,686
Special instruction	612,022	0	612,022
Other instruction	533,266	157,470	690,736
	<u>3,463,207</u>	<u>194,237</u>	<u>3,657,444</u>
Support services:			
Student services	209,714	0	209,714
Instructional staff services	138,799	0	138,799
Administration services	603,319	5,364	608,683
Operation and maintenance of plant services	512,948	42,742	555,690
Transportation services	382,231	64,295	446,526
	<u>1,847,011</u>	<u>112,401</u>	<u>1,959,412</u>
Non-instructional programs:			
Community service and other enterprise operations	2,469	0	2,469
Food service operations	0	194	194
	<u>2,469</u>	<u>194</u>	<u>2,663</u>
Other expenditures:			
Facilities acquisitions	0	134,943	134,943
Long-term debt:			
Principal	0	360,000	360,000
Interest	0	93,423	93,423
AEA flowthrough	186,543	0	186,543
	<u>186,543</u>	<u>588,366</u>	<u>774,909</u>
Total expenditures	<u>5,499,230</u>	<u>895,198</u>	<u>6,394,428</u>
Excess of revenues over expenditures	1,865	109,554	111,419
Other financing sources(uses):			
Transfers in	1,829	252,986	254,815
Transfers out	(986)	(253,829)	(254,815)
Sale of equipment	22,321	0	22,321
Total other financing sources(uses)	<u>23,164</u>	<u>(843)</u>	<u>22,321</u>
Net change in fund balances	25,029	108,711	133,740
Fund balance beginning of year	<u>1,368,097</u>	<u>169,664</u>	<u>1,537,761</u>
Fund balance end of year	<u>\$ 1,393,126</u>	<u>278,375</u>	<u>1,671,501</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 133,740

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 217,408	
Depreciation expense	<u>(317,399)</u>	(99,991)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 360,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it was due. 817

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 15,066

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement		<u>20,703</u>
------------------	--	---------------

Changes in net assets of governmental activities (page 14) \$ 430,335

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 64,640
Intergovernmental receivables	500
Inventories	4,956
Capital assets, net of accumulated depreciation (Note 4)	44,500
Total assets	114,596
 LIABILITIES	
Salaries and benefits payable	11,796
Deferred revenue:	
Other	3,679
Total liabilities	15,475
 NET ASSETS	
Investment in capital assets	44,500
Unrestricted	54,621
Total net assets	\$ 99,121

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 158,332
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	84,683
Benefits	22,832
Services	6,635
Supplies	131,281
Depreciation	8,788
Other	50
Total operating expenses	254,269
Operating loss	(95,937)
Non-operating revenues:	
State sources	3,703
Federal sources	93,826
Interest on investments	1,652
Total non-operating revenues	99,181
Change in net assets	3,244
Net assets beginning of year	95,877
Net assets end of year	\$ 99,121

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 156,888
Cash received from miscellaneous operating activities	1,195
Cash payments to employees for services	(106,771)
Cash payments to suppliers for goods or services	(121,818)
Net cash used in operating activities	(70,506)
Cash flows from non-capital financing activities:	
State grants received	3,703
Federal grants received	76,584
Net cash provided by non-capital financing activities	80,287
Cash flows from capital and related financing activities:	
Purchase of capital assets	(4,500)
Cash flows from investing activities:	
Interest on investments	1,652
Net cash provided by investing activities	1,652
Net increase in cash and cash equivalents	6,933
Cash and cash equivalents at beginning of year	57,707
Cash and cash equivalents at end of year	\$ 64,640
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (95,937)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	17,242
Depreciation	8,788
Increase in inventories	(1,094)
Increase in accounts receivable	(500)
Increase in salaries and benefits payable	744
Increase in deferred revenue	251
Net cash used in operating activities	\$ (70,506)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 64,640

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$17,242.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NORTHEAST COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Northeast Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Goose Lake, Iowa, and the predominate agricultural territory in Clinton County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Northeast Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Northeast Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clinton Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following nonmajor proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded

as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services and other expenditures functions exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in bank at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 252,000
General	Student Activity	1,829
Capital Projects	General	986
	Total	<u>\$ 254,815</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 116,677	0	0	116,677
Construction in progress	75,551	0	75,551	0
Total capital assets not being depreciated	192,228	0	75,551	116,677
Capital assets being depreciated:				
Buildings	6,568,035	156,429	0	6,724,464
Land improvements	1,155,890	40,305	0	1,196,195
Machinery and equipment	2,278,288	96,225	163,523	2,210,990
Total capital assets being depreciated	10,002,213	292,959	163,523	10,131,649
Less accumulated depreciation for:				
Buildings	2,182,932	135,390	0	2,318,322
Land improvements	308,563	57,756	0	366,319
Machinery and equipment	1,887,013	124,253	163,523	1,847,743
Total accumulated depreciation	4,378,508	317,399	163,523	4,532,384
Total capital assets being depreciated, net	5,623,705	(24,440)	0	5,599,265
Governmental activities capital assets, net	\$ 5,815,933	(24,440)	75,551	5,715,942
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 141,502	4,500	0	146,002
Less accumulated depreciation	92,714	8,788	0	101,502
Business-type activities capital assets, net	\$ 48,788	(4,288)	0	44,500

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 19,115
Support services:		
Administration		8,483
Operation and maintenance of plant		11,902
Transportation		89,608
		<u>129,108</u>
Unallocated depreciation		<u>188,291</u>
Total governmental activities depreciation expense		<u>\$ 317,399</u>
Business-type activities:		
Food services		\$ 8,788
Total business-type activities depreciation expense		<u>\$ 8,788</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,800,000	0	245,000	2,555,000	250,000
Revenue bonds	610,000	0	115,000	495,000	120,000
Early retirement	50,274	0	20,703	29,571	14,785
Total	<u>\$ 3,460,274</u>	<u>0</u>	<u>380,703</u>	<u>3,079,571</u>	<u>384,785</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated May 1, 2004			
	Interest Rates	Principal	Interest	Total
2007	2.25 %	\$ 250,000	76,123	326,123
2008	2.50	255,000	70,498	325,498
2009	2.75	265,000	64,123	329,123
2010	3.00	275,000	56,835	331,835
2011	3.00	280,000	48,585	328,585
2012	3.10	290,000	40,185	330,185
2013	3.25	300,000	31,195	331,195
2014	3.30	315,000	21,445	336,445
2015	3.40	325,000	11,050	336,050
Total		<u>\$ 2,555,000</u>	<u>420,039</u>	<u>2,975,039</u>

Revenue Bonds Payable

Details of the District's revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated April 1, 2004			
	Interest Rates	Principal	Interest	Total
2007	2.25 %	\$ 120,000	9,336	129,336
2008	2.25	125,000	6,564	131,564
2009	2.25	125,000	3,748	128,748
2010	2.25	125,000	936	125,936
Total		\$ 495,000	20,584	515,584

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty-five years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to \$30,000. Early retirement benefits that were paid during the year ended June 30, 2006, totaled \$20,703.

(6) Property Lease

During the year ended June 30, 1999, the District entered into a lease for property containing a bus barn. Payments are \$200 per month until either the District or the landlord terminate the lease.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the year ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$182,306, \$177,766 and \$173,577, respectively, equal to the required contributions for each year.

(8) Risk Management

Northeast Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any

deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$186,543 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services and other expenditures functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHEAST COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 3,588,935	159,984	3,748,919	3,372,376	3,372,376	376,543
Intermediate sources	38,159	0	38,159	7,000	7,000	31,159
State sources	2,772,517	3,703	2,776,220	2,737,058	2,737,058	39,162
Federal sources	106,236	93,826	200,062	193,950	193,950	6,112
Total revenues	<u>6,505,847</u>	<u>257,513</u>	<u>6,763,360</u>	<u>6,310,384</u>	<u>6,310,384</u>	<u>452,976</u>
Expenditures:						
Instruction	3,657,444	0	3,657,444	4,117,314	4,117,314	459,870
Support services	1,959,412	0	1,959,412	1,806,508	1,900,000	(59,412)
Non-instructional programs	2,663	254,269	256,932	250,200	260,000	3,068
Other expenditures	774,909	0	774,909	771,294	771,294	(3,615)
Total expenditures	<u>6,394,428</u>	<u>254,269</u>	<u>6,648,697</u>	<u>6,945,316</u>	<u>7,048,608</u>	<u>399,911</u>
Excess (deficiency) of revenues over (under) expenditures	111,419	3,244	114,663	(634,932)	(738,224)	852,887
Other financing sources, net	22,321	0	22,321	3,000	3,000	19,321
Excess (deficiency) of revenues and other financing sources over (under) expenditures	133,740	3,244	136,984	(631,932)	(735,224)	872,208
Balance beginning of year	1,537,761	95,877	1,633,638	1,453,056	1,453,056	180,582
Balance end of year	<u>\$ 1,671,501</u>	<u>99,121</u>	<u>1,770,622</u>	<u>821,124</u>	<u>717,832</u>	<u>1,052,790</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHEAST COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, the District adopted a budget amendment to increase support services expenditures from \$1,806,508 to \$1,900,000 and non-instructional programs from \$250,200 to \$260,000. Although the District adopted this budget amendment, expenditures in the support services and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

NORTHEAST COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
ASSETS							
Cash and pooled investments	\$ 170,971	40,160	357	211,488	(8,437)	15,082	218,133
Receivables:							
Property tax:							
Current year delinquent	4,261	0	1,024	5,285	0	4,557	9,842
Succeeding year	188,000	0	45,239	233,239	0	201,423	434,662
Intergovernmental receivables	0	2,577	0	2,577	60,614	0	63,191
TOTAL ASSETS	\$ 363,232	42,737	46,620	452,589	52,177	221,062	725,828
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 500	3,576	0	4,076	8,356	0	12,432
Salaries and benefits payable	359	0	0	359	0	0	359
Deferred revenue:							
Succeeding year property tax	188,000	0	45,239	233,239	0	201,423	434,662
Total liabilities	188,859	3,576	45,239	237,674	8,356	201,423	447,453
Fund balances:							
Reserved for:							
Debt service	0	0	0	0	0	19,639	19,639
Unreserved	174,373	39,161	1,381	214,915	43,821	0	258,736
Total fund balances	174,373	39,161	1,381	214,915	43,821	19,639	278,375
TOTAL LIABILITIES AND FUND BALANCES	\$ 363,232	42,737	46,620	452,589	52,177	221,062	725,828

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHEAST COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 188,457	0	45,349	233,806	378,082	201,914	813,802
Other	12,090	171,379	0	183,469	5,354	2,127	190,950
TOTAL REVENUES	200,547	171,379	45,349	417,275	383,436	204,041	1,004,752
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	36,767	0	0	36,767	0	0	36,767
Other instruction	0	157,470	0	157,470	0	0	157,470
Support services:							
Administration services	5,364	0	0	5,364	0	0	5,364
Operation and maintenance of plant services	42,742	0	0	42,742	0	0	42,742
Student transportation	19,095	0	45,200	64,295	0	0	64,295
Non-instructional programs:							
Food service operations	194	0	0	194	0	0	194
Other expenditures:							
Facilities acquisitions	0	0	0	0	134,943	0	134,943
Long-term debt:							
Principal	0	0	0	0	0	360,000	360,000
Interest	0	0	0	0	0	93,423	93,423
TOTAL EXPENDITURES	104,162	157,470	45,200	306,832	134,943	453,423	895,198
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	96,385	13,909	149	110,443	248,493	(249,382)	109,554
OTHER FINANCING SOURCES (USES):							
Transfers in	0	0	0	0	986	252,000	252,986
Transfers out	0	(1,829)	0	(1,829)	(252,000)	0	(253,829)
TOTAL OTHER FINANCING SOURCE (USES)	0	(1,829)	0	(1,829)	(251,014)	252,000	(843)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	96,385	12,080	149	108,614	(2,521)	2,618	108,711
FUND BALANCE BEGINNING OF YEAR	77,988	27,081	1,232	106,301	46,342	17,021	169,664
FUND BALANCE END OF YEAR	\$ 174,373	39,161	1,381	214,915	43,821	19,639	278,375

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHEAST COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Activity Interest Account	\$ 0	400	400	0
Activity General Activities	0	8,469	8,469	0
HS Pop Machine	0	3,510	3,510	0
Post Prom	376	3,226	3,023	579
Concessions	0	22,659	22,659	0
Elem Pop Sales	0	3,329	3,329	0
Drama	2,671	3,954	4,133	2,492
Golf	(4,981)	777	(4,204)	0
MS Boys Basketball	0	218	218	0
HS Boys Basketball	3,516	7,820	10,193	1,143
HS Boys BB Tournament	1,497	23,081	19,623	4,955
MS Football	0	235	235	0
HS Football	13,306	11,154	22,159	2,301
HS FB Fundraising	124	2,200	1,843	481
Baseball	(5,681)	330	(5,678)	327
Baseball Fundraising	(68)	1,425	1,357	0
MS Boys Track	321	468	285	504
HS Boys Track	(11,306)	1,201	(10,105)	0
Boys Track Fundraising	239	1,438	712	965
MS Wrestling	2,358	117	1,665	810
HS Wrestling	4,223	5,454	8,375	1,302
Wrestling Fundraising	171	9,168	8,947	392
Student Leadership	(10)	1,182	930	242
MS Girls Basketball	0	403	403	0
HS Girls Basketball	11,546	4,998	16,544	0
HS Girls BB Fundraising	0	595	252	343
MS Volleyball	91	293	384	0
HS Volleyball	(2,517)	2,788	271	0
HS VB Fundraising	100	870	970	0
HS Softball	(9,831)	1,454	(8,377)	0
HS Softball Fundraising	1,146	5,295	5,039	1,402
MS Girls Track	96	468	564	0
HS Girls Track	0	3,532	3,532	0
Spanish Club	0	3,718	3,718	0
Elem Pop Sales	477	0	477	0
HS Lounge Pop Sales	968	0	968	0
Library Capachino	384	0	384	0
Activity Cheerleading	101	391	190	302
Dance Team	(2)	0	(2)	0
FBLA	479	7,243	6,420	1,302
FTA	985	3,919	2,869	2,035
FFA	6,969	19,239	18,598	7,610
MS Student Council	474	127	0	601
HS Student Council	(422)	1,199	777	0
Class of 2006	807	0	807	0
Class of 2007	2,622	0	1,773	849
Class of 2008	2,366	0	195	2,171
Class of 2009	1,994	0	0	1,994
Class of 2010	1,492	1,492	465	2,519
Class of 2011	0	1,540	0	1,540
Total	\$ 27,081	171,379	159,299	39,161

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHEAST COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,547,106	2,580,192	2,686,990	2,312,474
Tuition	713,013	522,446	549,462	511,819
Other	328,816	379,225	267,975	618,112
Intermediate sources	38,159	36,975	31,654	7,000
State sources	2,772,517	2,654,881	2,551,781	2,762,566
Federal sources	106,236	150,752	217,338	155,085
Total	\$ 6,505,847	6,324,471	6,305,200	6,367,056
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,354,686	2,310,146	2,512,182	2,132,811
Special instruction	612,022	615,999	828,275	779,628
Other instruction	690,736	651,797	545,153	620,602
Support services:				
Student services	209,714	198,822	167,693	163,248
Instructional staff services	138,799	147,828	91,353	152,368
Administration services	608,683	607,246	565,233	529,277
Operation and maintenance of plant services	555,690	464,450	441,993	448,459
Transportation services	446,526	420,152	410,255	378,924
Other support services	0	0	0	20
Non-instructional programs	2,663	1,386	774	21,575
Other expenditures:				
Facilities acquisitions	134,943	284,933	949,633	249,434
Long-term debt:				
Principal	360,000	2,940,000	208,000	165,000
Interest	93,423	263,183	204,897	191,153
AEA flow-through	186,543	185,900	189,565	203,882
Total	\$ 6,394,428	9,091,842	7,115,006	6,036,381

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Northeast Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northeast Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 5, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Northeast Community School District and other parties to whom Northeast Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Northeast Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 5, 2006

NORTHEAST COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the support services and other instructions functions.
- Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.
- Response - The budget was amended to adjust for excess expenditures. Due to the state-wide account code conversion taking place, expenditure were exceeded.
- Conclusion - Response accepted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - We noted no business transactions between the District and District officials or employees.
- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

NORTHEAST COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-06 Clothing Purchased for Coaches - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - We will approach the Athletic Boosters about paying for the coaches clothing or refrain from making any purchases at all.

Conclusion - Response accepted.